TOWARD BETTER VALUE

Employer perspectives on what’s wrong with the management of prescription drug benefits and how to fix it
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Letter from NPC President Dan Leonard

In the past few years, high-profile news stories and related reactions have provided even the average citizen with a glimpse at the dysfunction of the pharmaceutical benefit supply chain. We’ve heard from different stakeholders in the aftermath of each controversy, all eager to provide their perspectives on what’s wrong, the reasons that problems persist and possible solutions. Along the way, we’ve not heard much from employers, who not only provide health insurance for 56 percent of the U.S. insured population, but have the capacity to effect change through benefit design, vendor selection and contract management.

The National Pharmaceutical Council (NPC) is focused on the value of health care and improving patient outcomes. We understand that to have a sustainable marketplace that rewards value and innovation, the customers at the head of the supply chain — including employers — need to get strong value in return for the money they spend on prescription drug benefits. With this in mind, we partnered with a research firm to explore employers’ experiences with and perspectives on current and future prescription drug management practices.

Based on interviews with experts and a survey of 88 “jumbo” employers, this report describes a disconnect between the important role employers believe their pharmacy benefit managers (PBMs) and specialty pharmacy managers (SPMs) play in helping to manage prescription drug benefits, and their perceptions of PBM and SPM vendor goal alignment, trust and service satisfaction. Findings indicate that disconnect is rooted in employer concerns about transparency, complexity and rebates. Perhaps not surprisingly, employers favor solutions focused on these same issues — improving transparency, reducing complexity and finding alternatives to rebates.

This report is intended to support a constructive and educational dialogue among stakeholders along the prescription drug benefit supply chain, especially with employers. To achieve their objectives for the health care benefits they offer, employers must more clearly and consistently articulate the full health, productivity and cost management value they want from all stakeholders. Employers must also become more actively engaged in managing the prescription benefit supply chain with their trusted vendor partners.

I encourage all stakeholders to read this report and to explore and use the tools NPC is providing as an extension of this research, in keeping with our commitment to delivering value to patients.

Thank you.

Dan Leonard
Research Background

In the first quarter of 2017, Benfield, a division of Gallagher Benefit Services, conducted employer research on the topic of pharmacy benefit management on behalf of NPC. The research took place in three phases:

1. **Interviews** with eight subject matter experts (e.g., employers, pharmacy benefit consultants and pharmacists) to gather background information and guide survey development;

2. **A survey** of health benefit decision-makers and influencers from 88 U.S. employers with 5,000 or more employees. The survey assessed respondents’ experiences and perspectives regarding current and next-generation pharmacy benefit management value propositions and business models; and

3. **Follow-up** interviews with eight survey respondents to provide additional insights related to survey findings. Interviewees were selected to represent a spectrum of experiences and perspectives about current and future approaches to managing prescription drug benefits.

The survey and complete findings report is available on the NPC website at [www.npcnow.org/employer-pbm-survey](http://www.npcnow.org/employer-pbm-survey).
Employers Value the Functions Their PBMs and SPMs Perform

Research findings reveal that a majority of employers consider many aspects of PBMs’ value proposition to be very important (see Figure 1). At least 63 percent of respondents rated every value proposition component listed in the research as very important. The selections that drew the greatest response from employers related to controlling costs through negotiation and use of cost-effective treatments. Significant portions of respondents also rated the following PBM functions as very important: network convenience, helping to improve patient health and supporting value through innovation.

Figure 1: Percentage of respondents rating each PBM function as very important

<table>
<thead>
<tr>
<th>Function</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negotiate with pharmaceutical manufacturers to achieve cost savings</td>
<td>80%</td>
</tr>
<tr>
<td>Implement tactics that help control costs by assuring use of the most cost-effective treatments</td>
<td>80%</td>
</tr>
<tr>
<td>Maintain a network of pharmacies that make prescription drugs conveniently available to our employees and dependents</td>
<td>75%</td>
</tr>
<tr>
<td>Implement tactics to help improve health by assuring patients are prescribed the most effective treatments</td>
<td>70%</td>
</tr>
<tr>
<td>Be a source of innovative ideas and programs to improve overall employee health and health care value</td>
<td>70%</td>
</tr>
<tr>
<td>Maintain high employee satisfaction with their prescription benefits</td>
<td>68%</td>
</tr>
<tr>
<td>Provide input and recommendations to inform our pharmacy benefit strategy</td>
<td>67%</td>
</tr>
<tr>
<td>Provide data/reporting to help monitor benefits and inform benefit decision-making</td>
<td>65%</td>
</tr>
<tr>
<td>Implement tactics to improve medication adherence</td>
<td>63%</td>
</tr>
</tbody>
</table>

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Not at All Important, 3-5=Somewhat Important and 6-7=Very Important
Employers expressed similar perspectives on the importance of various SPM value proposition components (see Figure 2). At least 62 percent of all employers with a SPM rate all of the SPM functions as very important. Notably, providing input to inform pharmacy benefit strategy was the function the most respondents deemed very important.

**Figure 2: Percentage of respondents rating each SPM function as very important**

<table>
<thead>
<tr>
<th>Function</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provide input and recommendations to inform our pharmacy benefits strategy</td>
<td>79%</td>
</tr>
<tr>
<td>Implement tactics that help control costs by assuring use of the most cost-effective treatments</td>
<td>76%</td>
</tr>
<tr>
<td>Implement tactics to help improve health by assuring patients are prescribed the most effective treatments</td>
<td>76%</td>
</tr>
<tr>
<td>Provide solutions to help manage the cost of specialty drugs traditionally covered under medical benefits</td>
<td>74%</td>
</tr>
<tr>
<td>Implement tactics to support patients and improve medication adherence</td>
<td>71%</td>
</tr>
<tr>
<td>Negotiate with manufacturers to achieve cost savings</td>
<td>71%</td>
</tr>
<tr>
<td>Maintain a network of specialty pharmacies that make prescription drugs conveniently available</td>
<td>68%</td>
</tr>
<tr>
<td>Be a source of innovative ideas and programs to improve overall employee health and health care value</td>
<td>68%</td>
</tr>
<tr>
<td>Provide data/reporting to help monitor benefits and inform benefit decision-making</td>
<td>65%</td>
</tr>
<tr>
<td>Maintain high employee satisfaction with their prescription benefits</td>
<td>62%</td>
</tr>
</tbody>
</table>

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Not at All Important, 3-5=Somewhat Important and 6-7=Very Important

* Respondents who receive specialty services from their PBM did not respond to questions about SPM performance
Employer Concerns About the Management of Prescription Drug Benefits

The fact that employers place a high value on services provided by their PBMs and SPMs makes the concerns employers have about their vendor relationships all the more notable. Relatively few respondents believe the goals of their PBMs or SPMs strongly align with their own goals for managing employee health, productivity and costs (see Figure 3). Respondents were more likely to rate their benefit advisor/consultant as being strongly aligned with employer needs than were health plans, PBMs or SPMs.

A trust gap also exists between employers and their pharmacy benefit vendors. Only about a third of respondents rated their PBM and SPM vendors as trustworthy, trailing ratings for benefit advisors by a substantial margin.

Employer satisfaction with their PBMs and SPMs also lags that of benefit advisors. Just over a third of employers rate the overall performance of their PBMs and SPMs as very satisfactory, compared to 62 percent for benefit advisors.

<table>
<thead>
<tr>
<th>Vendor</th>
<th>Strongly Aligned</th>
<th>Very Trustworthy</th>
<th>Very Satisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefit Advisor/Consultant (n=87)</td>
<td>66%</td>
<td>69%</td>
<td>62%</td>
</tr>
<tr>
<td>Health Plan (n=85)</td>
<td>38%</td>
<td>44%</td>
<td>41%</td>
</tr>
<tr>
<td>PBM (n=84)</td>
<td>33%</td>
<td>35%</td>
<td>37%</td>
</tr>
<tr>
<td>SPM (n=73*)</td>
<td>30%</td>
<td>33%</td>
<td>35%</td>
</tr>
</tbody>
</table>

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Not at All Aligned/Trustworthy/Satisfied, 3-5=Somewhat Aligned/Trustworthy/Satisfied and 6-7=Very Aligned/Trustworthy/Satisfied

* Number comprises respondents who report engaging with a SPM, including those who receive specialty pharmacy services from their PBM and those who contract with SPMs separately
The survey dug further into respondents’ satisfaction with their PBM and SPM vendors. Respondents rated how well their PBMs and SPMs perform in implementing the value proposition components they rated earlier. Ideally, vendors would excel in the aspects their customers consider most important, but survey data show that, for many employers, their PBM and SPM vendors may be falling short in many respects.

Figure 4 compares the importance and performance ratings of the two most important PBM and SPM value proposition elements. Specifically, the data reveal large gaps between the percentage of employers who rate key service elements as very important and the percentage who rate the performance of their PBM in delivery of those services as very good.

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Figure 4: Comparison of percentage of respondents rating select PBM and SPM services as very important/very good performance

**PBMs** (n=88)

- Negotiating with pharmaceutical manufacturers to achieve cost savings: 41% very good, 80% very important
- Implementing tactics that help control costs by assuring use of the most cost-effective treatments: 24% very good, 80% very important

**SPMs** (n=34*)

- Providing input and recommendations that inform employers’ pharmacy benefit strategy: 29% very good, 79% very important
- Implement tactics that help control costs by assuring use of the most cost-effective treatments: 26% very good, 76% very important

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Not at All Important/Good Performance, 3-5=Somewhat Important/Good Performance and 6-7=Very Important/Good Performance

* Respondents who receive specialty services from their PBM did not respond to questions about SPM performance
Transparency, Complexity and Rebates: At the Root of Employers’ Concerns

The issues of pharmacy benefit transparency, complexity and rebates repeatedly surfaced as concerns among employers. The survey results in Figure 5 affirm the importance of these issues. The results demonstrate that large percentages of respondents agree that current pharmacy benefit management models lack transparency and are overly complicated. Notable percentages express skepticism about the helpfulness of rebates in achieving an aligned and effective health care supply chain. Over two-thirds of respondents (69 percent) report that their organizations would welcome an alternative to rebate-driven approaches to managing pharmacy benefit costs.

**Figure 5: Percentage of respondents who strongly agree with the following statements**

- **Our company would welcome an alternative to a rebate-driven approach to managing costs**
  - 69%

- **PBM lacks transparency about how they make money**
  - 63%

- **Contracts are overly-complicated and often harbor clauses that benefit the PBM at the expense of the employer or patient**
  - 58%

- **PBM lacks transparency about how they structure their formularies and exclusion lists**
  - 50%

- **Rebates contribute to misaligned incentives that put PBM interests before those of their customers or patients**
  - 49%

- **PBM demand for large rebates is a key factor in driving manufacturers to raise drug prices**
  - 41%

- **Rebates are an effective tool for helping to drive down net price**
  - 19%

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Strongly Disagree, 3-5=Neutral and 6-7=Strongly Agree.
Supposedly, PBMs make their profit by charging employers administrative fees. If that was the case, theoretically, PBMs would be making nothing. But PBMs’ reported profits are so high. It shows that they are making money in ways that are not disclosed.

— VP and CFO, Corporate HR Shared Services

It’s hard to know if you are maximizing the value of your PBM contract. It’s very conflicting and confusing. There are so many ways to contract with PBMs. There is no standard way.

— Director of Benefits

Pre- and post-survey interviews emphasized the importance of thinking about transparency, complexity and rebates as interrelated challenges that work together to preserve the status quo — in which employers continue to invest in their strategies and vendors despite the fact that they lack trust, perceive misalignment and are generally not satisfied with their relationships.

The problem faced by most employers is that, while they are concerned about a lack of transparency, they are confused and intimidated by the sheer complexity of the prevailing PBM models and ambiguously worded contracts that are common. So, as data will show in the next section, few employers understand even the most basic things about the agreements they have in place with their PBMs.

It’s disheartening that people have been talking about these PBM business practices for years, but we still haven’t seen any change. I’m not sure that I’m any more confident in my relationship with my PBM today than I was 10 years ago. That is a sad state of affairs.

— Director of Benefits

Finally, adding to the inertia of the status quo is the intense focus of all stakeholders on rebates. Employers have become somewhat fixated on the goal of receiving all or most of the rebate dollars paid to their PBMs. For many employers, the rebates create a sort of revenue stream that benefit departments count on and quickly put to work offsetting rising costs. The risk to employers in focusing too strongly on rebates is that it acts as a distraction, taking attention away from other important factors that can have profound impacts on the value they get in return for the money spent providing prescription drug benefits to their employees, such as:

- making sure employees have access to the most effective medicines,
- making sure some employees are not bearing a disproportionate cost share because their coinsurance or deductible payments are based on pre-rebate prices, and
- making sure the pharmacy benefit supports broader goals related to employee health, productivity and satisfaction.
Gaps in Consulting Support

In an environment in which transparency and complexity are such common challenges, it’s not easy for employers to get good value for money spent on prescription drug benefits for their employees. According to the subject matter experts who participated in preliminary interviews, obtaining good value requires a strong mix of in-house and/or external consulting expertise in pharmacy benefit management and contracting.

With that in mind, the survey included a pair of questions targeting pharmacy benefit expertise — one focused internally and one externally.

**Figure 6: Percentage of respondents who strongly agree with the following statements about their PBM engagement**

- I fully understand our PBM’s performance guarantees: 40%
- I fully understand the details of the contract we have with our PBM: 30%
- I have invested hours reading and understanding the contract we have in place with our PBM: 22%
- I understand exactly how our PBM makes money from the services it provides our organization: 19%

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Strongly Disagree, 3-5=Neutral and 6-7=Strongly Agree

The findings demonstrate that most employers lack the internal expertise and practices to manage prescription drug benefits for strong value. Figure 6 indicates that relatively few respondents have a clear knowledge of how PBMs run the services they provide to employers. Notably, just 19 percent of respondents strongly agree they understand exactly how their PBM makes money from the services provided to their organizations.

This lack of clarity about how PBMs operate indicates a need for consultative support to manage prescription drug benefits, and, in fact, it is common for employers to seek outside expertise. Eighty-six percent of respondents rely on assistance from either their benefits advisor (48 percent) or a separate consultant with specific expertise in pharmacy benefits (38 percent).

The survey questions about external pharmacy benefit expertise sought to gauge the quality of the consulting support respondents receive. Subject matter experts in the pre-survey interviews helped
researchers compile a list of practices that would be indicative of high-quality consulting support. While more than half of respondents agree strongly that they are benefiting from many important consulting practices, many others do not (see Figure 7). The respondents who report fewer benefits from their consultant partners lack the type of support that is essential for most organizations to navigate the opacity and manage the complexity of PBM contracting and services.

**Figure 7: Percentage of respondents who strongly agree with the following statements about their pharmacy benefit consultant**

- They (individual or firm) do not make money by placing business with any PBMs (i.e., avoids a possible conflict of interest) – 67%
- They work with us throughout the course of the year to monitor and manage our PBM’s performance – 56%
- They identify problematic issues in our PBM contract – 56%
- They have experience working in the PBM industry (former insider) – 55%
- They explain the financial aspects of key formulary decisions – 54%
- They explain the clinical aspects of key formulary decisions – 45%
- They evaluate PBM recommendations for implications beyond drug cost (e.g., health, medical costs, productivity impacts) – 44%

Responses on the 1-7 Likert scale are categorized by researchers as: 1-2=Strongly Disagree, 3-5=Neutral and 6-7=Strongly Agree

* Employers who rely only on PBM recommendations for benefit decision-making did not respond to this question

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I know I’m getting good consulting advice when the consultant sees opportunities I hadn’t identified and when a consultant demonstrates deep knowledge and experience executing contracts. If I knew I wasn’t getting good advice, I would ask for a new consultant. One warning sign is when the consultant makes too strong a recommendation, rather than giving me the data to make a decision.

— Former Managing Director, Health Strategy and Resources

It seems like too often consultants aim to hit 90 percent of the target. Then they feel pretty good hitting that 90 percent mark, but not hitting the actual target.

— Director of Benefits
Toward Better Value: What Employers Want and How They Intend to Get It

To gain insight into employer priorities and preferences for improving the value of their prescription drug benefits, the survey presented a series of three future-facing questions. Figure 8 summarizes the findings.

**Figure 8: Respondents’ thoughts on moving toward better value in prescription drug benefits**

<table>
<thead>
<tr>
<th>Most important objectives</th>
<th>Highest-priority ideas</th>
<th>Perceived most likely future scenarios</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Improve transparency around pricing, rebates and discounts</td>
<td>1. Replace rebates with discounts</td>
<td>1. Transparent future: Receive all rebates and pay PBM for transaction processing and administrative services</td>
</tr>
<tr>
<td>2. Simplify contracts and provide clear definitions to remove ambiguity</td>
<td>2. Efficacy-based reimbursement (drug price varies with effectiveness)</td>
<td>2. Evolve the traditional PBM: Work with current PBM on incremental improvements that will help control costs and improve value over time</td>
</tr>
<tr>
<td>3. Provide full disclosure of the rationale behind formulary and exclusion list decisions (clinical, financial and economic impacts)</td>
<td>3. Value-based insurance design (high-value drugs cost patients less than low-value drugs)</td>
<td>3. Direct contract: Move decision-making and negotiations in-house and engage a third-party administrator to manage pharmacy transactions</td>
</tr>
</tbody>
</table>

**Most important objectives:** Employers identified what they believed to be the most and second-most important objectives for making improvements to the prevailing PBM business model. The top three answers were aligned with the issues at the root of employer concerns with their current prescription management approach: transparency, complexity and rebates.

**The next-generation PBM model I would like to see is a simpler model with claim adjudication. There would be no rebates. Just drugs that are priced appropriately.**

— Former Managing Director, Health Strategy and Resources
**Highest-priority ideas:** Employers used a 7-point scale to rate the priority of specific ideas that, if broadly adopted, could improve the overall value of pharmacy benefit management. The top three responses point to a desire to more fully align pharmacy benefit management models with employers’ desire to offer access to effective, appropriately priced medications that provide value to employees and dependents.

**Perceived most likely future scenarios:** Finally, employers were presented with three future scenarios and asked to identify those that their organization would be most likely and second-most likely to take. Respondents indicated that their organizations would most likely support a more transparent and less complicated model that focuses on transaction processing and administrative services.

What is most notable about the above findings is how the respondents’ forward-looking aspirations align with the issues the research identified at the root of employers’ concerns. When employers consider the path to getting better value from prescription drug benefits:

- the three most important objectives have to do with transparency and reducing complexity,
- the highest-priority idea focuses on getting rid of rebates, and
- the most likely scenario for employers is to move into transparent PBM models.

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It’s tough to describe my ideal PBM because of the [confusing] way pharma prices medications and then the way PBMs price medications to employers. One ideal model would be to see the PBM receive an admin fee to deliver a service. That is the only money they would make. PBMs would truly be a middleman that helps procure drugs.

— Director of Benefits
The Relationship Between Engagement in Prescription Drug Benefits and PBM Trust/Satisfaction

An analysis of interview and survey findings revealed a potential relationship between the extent to which employers were engaged in management of their prescription drug benefits and their overall satisfaction with/trust in their PBM. While the differentiations are not statistically significant due to a low total sample size, they are directional, and thus instructive for employers wanting to develop a path to better value in their prescription drug benefits (see Figure 9).

Figure 9: PBM engagement and trust/satisfaction segmentation

Midpoint is at the intersection of the mean for each axis
May represent more than one employer

n=88
Comparing the attributes that differentiate employers in the upper right section (engaged and satisfied) versus those in the lower left (not engaged/dissatisfied) reveals the following:

**Figure 10: Segmentation attributes**

<table>
<thead>
<tr>
<th>Attributes of Low Engagement/Low Trust and Satisfaction Among Employers</th>
<th>Attributes of High Engagement/High Trust and Satisfaction Among Employers</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lowest appreciation for the importance of PBM functions/the PBM value proposition</td>
<td>• Highest appreciation for the importance of PBM functions/the PBM value proposition</td>
</tr>
<tr>
<td>• Highest level of concern with the PBM business model</td>
<td>• Lowest level of concern with the PBM business model</td>
</tr>
<tr>
<td>• Lowest-quality consulting support</td>
<td>• Highest-quality consulting support</td>
</tr>
<tr>
<td>• Least likely to move to a transparent approach as their future scenario, and most likely to incrementally evolve their traditional PBM relationship</td>
<td>• Choices represent diverse future scenarios</td>
</tr>
</tbody>
</table>

The contrasts in the above comparisons are suggestive of a number of implications:

- Placing a high value on the role of PBMs in managing prescription benefits may be a precursor to stronger engagement in PBM management.
- Employers’ concerns and skepticism about PBM business models may be reduced as organizations become more actively involved in managing their PBM relationships.
- High-quality consulting support may play a key role in making employers more active and in developing more constructive, trusting and satisfying relationships with their PBMs.
- Despite low satisfaction levels, employers represented in the lower left section of the graphic are most committed to incrementally improving the relationship with their traditional vendors. It is possible this is because low engagement and accompanying lack of familiarity and insight make it difficult to imagine other courses of action.
Segmentation Methodology Explanation

The researchers took the following steps to develop this segmentation model and attribute comparisons:

1. A one-dimensional segmentation was run to assess the level of employer engagement in PBM management. The score was based upon respondents' understanding and exploration of various PBM models and practices, as well as respondents' practice of accepting or modifying the prescription drug list.

2. A one-dimensional segmentation was run to assess employer trust/satisfaction with their PBMs. The score was based upon how respondents rated their PBMs' trustworthiness, satisfaction, performance and alignment with respondents' goals.

3. The two one-dimensional segmentations were combined into the 2x2 grid shown in Figure 9.

4. Cross-tab analyses were run on the 2x2 segmentation results to determine characteristics associated with the respondents in each section (see Figure 10).
Summary, Implications and Action Steps for Employers

As noted in the introduction, NPC’s purpose in conducting this research and disseminating its findings is to contribute to a constructive discussion among employers and supply chain stakeholders about how to improve the value returned for money spent on prescription drug benefits. The findings and conclusions developed through the research and reviewed in this report have supplied key elements for a constructive, solutions-oriented conversation.

In summary, the research has demonstrated that a large majority of employers value the functions performed by their PBM/SPM. However, employers share concerns about alignment, trustworthiness and overall satisfaction with their PBM/SPM vendors. These concerns, as the findings make clear, are rooted in transparency, complexity and rebates — issues that perpetuate the status quo. With few exceptions, employers are not equipped to manage PBM/SPM contracts and relationships on their own, so most rely heavily on their consultants. However, data show many employers are not receiving the strong consulting support they need.

Regarding how best to improve prescription drug benefit value, employer priorities align with the issues at the root of their concerns. Research findings show that employers’ top-rated value improvement objectives, ideas and future scenarios focus on addressing complexity, transparency and rebates. Finally, the segmentation analysis suggests that higher levels of engagement in managing prescription drug benefits is associated with increases in trust/satisfaction in PBMs/SPMs, and that strong consulting support is associated with more active engagement.

What steps can employers take to become more engaged and to more actively drive toward the goal of better value for money spent on prescription drug benefits? NPC is making two tools available to help employers get started. Both tools below can be accessed on NPC’s website.

- **PBM Relationship Segmentation Tool:** A quick self-assessment will show employers where they plot on the trust/satisfaction versus engagement segmentation. The tool also provides general strategic guidance for moving up and/or right toward greater engagement and trust/satisfaction.

- **Improving Your Prescription Drug Benefit Consulting Support:** This tool assesses the value you receive from your external consultant and how engaged your organization is with your consultant on pharmacy benefit issues. It also provides guidance on how an employer can improve the quality of consulting support it receives.
Appendix A: A Primer on the Prescription Drug Benefit Supply Chain

Employers pay for over 40 percent of prescription drugs purchased in the U.S., placing them in a key position in the prescription drug benefit supply chain (see below). As background for this report, this primer provides a high-level overview of the prescription drug benefit supply chain, identifies key stakeholders and their essential roles, and outlines some core principles of a healthy supply chain.

Overview of the health benefit supply chain

This illustration presents a highly simplified supply chain model. The arrows in the model represent the relationships between stakeholders. For instance, employers interact directly with their covered lives and Tier 1 suppliers, but not with Tier 2 pharmacies. Tier 1 suppliers have relationships with employers, Tier 2 pharmacies and Tier 3 biopharmaceutical manufacturers. This model doesn’t attempt to capture PBM/health plan relationships, the role of wholesalers, the engagement by some employers of specialty pharmacy managers (apart from their PBM) or the role of physicians. However, this streamlined model is sufficient for highlighting the role of key stakeholders addressed in the research in this document.

Stakeholders/Roles

- **The patient**, who is also an employee, dependent or retiree, who receives their prescription drug benefits through an employer.

- **Employers** (particularly self-insured employers like those surveyed in this research) have significant latitude in how they can structure their prescription drug benefits, the type of PBM/SPM they use and how they work with their PBM and/or SPM vendors to provide access to prescription drugs.

- **Consultants** provide guidance to employers making benefit decisions. Because prescription drug benefits are complicated, employers often engage consultants to help with benefit structure, PBM selection and negotiation, and monitoring/management of their PBM/SPM relationship.
• **PBMs and SPMs** contract with pharmaceutical manufacturers, leveraging purchasing power to lower drug prices through discounts and rebates. PBMs and SPMs also contract with pharmacies and specialty pharmacies to help contain costs and ensure convenient access to medicines. PBMs also deliver some medicines directly through mail-order services. The illustration shows that PBMs are in the Tier 1 position because they contract directly with employers, while serving as intermediaries for the other stakeholders in the supply chain.

• **Pharmacies** provide convenient access for patients to receive their medications, and also provide information systems and counseling to help avoid drug interactions and to promote drug adherence and overall patient health. This group of stakeholders is in Tier 2 of the supply chain because they play an important role in providing medications, but do not typically contract with the employer.

• **Biopharmaceutical manufacturers** are the developers of medications and hold an important place in the supply chain. They create medicines that are distributed to employees and covered by employers through pharmacy benefits. But because manufacturers have limited interaction and few direct relationships with employers, this group operates within Tier 3 of the supply chain — the farthest away from employers.

### Supply Chain Principles

Supply chains work best and are most sustainable when they adhere to some core principles. Applied to the pharmacy benefit supply chain, those principles are:

• **Clearly define “value”:** Employers must be clear about the value they want in return for money spent on prescription drug benefits: value in the form of better workforce health, productivity and/or lower total spending on health and disability benefits.

• **Reward value creation:** Stakeholders along the supply chain should be rewarded for creating value (and not rewarded for activities that don’t create value).

• **Seamless coordination/collaboration among stakeholders:** Stakeholders focus on adding value by doing what they do best, and coordinate (or even collaborate) with adjacent stakeholders to improve quality and reduce waste. This arrangement is in contrast with zero-sum behavior, in which every stakeholder seeks to maximize their profits regardless of the impact on overall value creation.

• **Transparency:** This is a requirement for coordination and the assessment of value creation that enables stakeholders to be rewarded for their contributions.

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About the National Pharmaceutical Council

The National Pharmaceutical Council (NPC) is a health policy research organization dedicated to the advancement of good evidence and science, and to fostering an environment in the United States that supports medical innovation. Founded in 1953 and supported by the nation’s major research-based pharmaceutical companies, NPC focuses on research development, information dissemination, and education on the critical issues of evidence, innovation and the value of medicines for patients. For more information, visit www.npcnow.org and follow NPC on Twitter @NPCnow.

About the Researchers

This report, and the research on which it was based, was conducted by Chuck Reynolds, Area President, and Laura Rudder Huff, Senior Consultant, for Benfield, a division of Gallagher Benefit Services. Benfield specializes in health care market research, strategy and communications, while seeking to improve health care value through meaningful information, clear communication and innovative collaboration along the health care supply chain.

The researchers would like to thank the following individuals for their input on the research design for this project: Chris Goff of Employers Health, Edmund Pezalla of Enlightenment Bioconsult LLC, Dan Pikelny of Navistar Inc., Tim Thomas of Crystal Clear Rx, Jan Berger of Health Intelligence Partners and Alex Azar of Seraphim Strategies, LLC.